

September 2007

Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Trustees' Summary

The Total Fund had an aggregate market value of just under \$1.66 billion at the end of September. The Total Fund advanced 2.9% during the month, leading the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, gained 3.8% during the month and small cap equity, as measured by the Russell 2000 Index, advanced 1.7%. Growth outpaced value in both the large and small cap spaces.

The international equity markets appreciated 5.4% in September, as measured by the MSCI EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, gained 11.1%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, advanced 0.8% during the month. High yield issues slightly outpaced the broad market gaining 2.4%, as measured by the Merrill Lynch High Yield Index.

Recommendations and Comments

- Mercer recommends that the ERS source the cash needed for benefit payments at the end of October from the international equity segment of the Fund with \$10 million from GMO.
- Mercer IC recently lowered our rating of the Robeco-Boston Partners Large Cap Value US Equity strategy to an A- from an A to reflect the large amount of turnover at the analyst level. While we remain fully confident in portfolio managers Mark Donovan and David Pyle, the analyst turnover places an additional burden on the firm's senior investment professionals, particularly on Donovan, to train the new members on RBP's investment approach. Donovan admitted that it takes time to fully integrate a new analyst before the analyst can make significant contributions to the idea generation process. During this period, the strategy will rely more heavily on the stock selection abilities of Donovan and Pyle and performance may suffer.

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MANAGER REPORTED PERFORMANCE
As of September 30, 2007

	Assets (\$ millions)	September	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,656.13	2.9	7.5	13.7	13.3	15.1	8.1	8.4	—	
vs. Composite Market Index		2.7	7.1	13.3	12.1	14.0	6.8	7.7	—	
CPI + 4% (1 Month in Arrears)		0.1	3.7	6.0	7.1	6.8	6.7	6.6	—	
<u>LARGE CAP VALUE EQUITY MANAGER</u>										
Boston Partners	135.76	3.7	9.1	18.6	17.0	18.6	10.1	9.0	12.9	8/1/95
Boston Partners - Net		3.7	8.9	18.4	16.8	18.3	9.8	8.8	12.6	
vs. Russell 1000 Value + 1%		3.5	6.2	15.4	16.2	19.1	9.2	9.8	13.3	
S&P 500 + 1%		3.8	9.4	17.4	14.1	16.5	3.6	7.6	11.4	
CPI + 6.5% (1 Month in Arrears)		0.3	4.6	8.5	9.6	9.3	9.2	9.1	9.1	
<u>LARGE CAP GROWTH EQUITY MANAGER</u>										
Mellon Capital Management - Ru 1000 Growth Index	81.65	4.2	12.7	19.3	12.2	13.9	N/A	N/A	--	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		--	--	--	--	--	N/A	N/A	--	
vs. Russell 1000 Growth		4.2	12.7	19.4	12.2	13.8	-3.0	4.1	--	
<u>LARGE CAP EQUITY INDEX</u>										
Mellon Capital Management - S&P 500	110.84	3.8	9.2	16.5	13.2	15.5	2.7	6.6	--	4/13/95
Mellon Capital Management - S&P 500 - Net		--	--	--	--	--	--	--	--	
vs. S&P 500		3.7	9.1	16.4	13.1	15.5	2.6	6.6	--	
<u>MID CAP VALUE EQUITY MANAGER</u>										
Hotchkis & Wiley	28.21	-0.7	-6.5	0.8	N/A	N/A	N/A	N/A	8.0	2/18/05
Hotchkis & Wiley - Net		-0.8	-7.1	-0.1	N/A	N/A	N/A	N/A	7.1	
vs. Russell Mid Cap Value + 1%		2.5	5.1	14.7	18.2	22.0	14.7	12.3	15.1	
CPI + 5.7% (1 Month in Arrears)		0.3	4.4	7.7	8.8	8.5	8.4	8.3	9.0	
<u>MID CAP GROWTH EQUITY MANAGER</u>										
Artisan Partners	31.49	5.4	22.5	31.0	19.3	20.1	6.6	N/A	8.0	6/12/00
Artisan Partners - Net		5.3	21.8	29.9	18.3	19.1	5.7	N/A	7.2	
vs. Russell Mid Cap Growth		3.9	13.3	21.2	17.0	20.4	0.4	7.5	0.8	
CPI + 5.7% (1 Month in Arrears)		0.3	4.4	7.7	8.8	8.5	8.4	8.3	8.4	

(1) Total Fund returns represent actual returns through 6/30/2007 and estimated performance thereafter.

Policy Measures are Highlighted

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MID CAP CORE EQUITY	Assets (\$ millions)	September	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
EARNEST Partners	30.23	2.7	9.8	14.7	N/A	N/A	N/A	N/A	13.2	2/18/05
EARNEST Partners - Net		2.5	9.2	13.8	N/A	N/A	N/A	N/A	12.3	
vs. Russell Mid Cap Index + 1%		3.4	9.7	18.9	18.3	21.9	10.0	11.4	15.3	
CPI + 5.7% (1 Month in Arrears)		0.3	4.4	7.7	8.8	8.5	8.4	8.3	9.0	
Reinhart & Mahoney	14.50	3.2	10.2	17.6	N/A	N/A	N/A	N/A	16.3	2/18/05
Reinhart & Mahoney - Net		3.2	9.5	16.7	N/A	N/A	N/A	N/A	15.6	
vs. S&P 400		2.6	11.0	18.8	15.6	18.2	8.6	11.6	12.9	
CPI + 5.7% (1 Month in Arrears)		0.3	4.4	7.7	8.8	8.5	8.4	8.3	9.0	
SMALL CAP EQUITY MANAGERS										
Westfield Capital Management	41.35	4.4	12.0	20.3	13.3	17.2	N/A	N/A	7.2	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		2.9	9.3	18.9	14.1	18.7	1.5	3.7	6.2	
CPI + 5.9% (1 Month in Arrears)		0.3	4.5	7.9	9.0	8.7	8.6	8.5	8.5	
AQR	41.75	0.2	-4.0	N/A	N/A	N/A	N/A	N/A	1.5	10/2/2006
AQR - Net		0.2	-4.0	N/A	N/A	N/A	N/A	N/A	1.5	
vs. Russell 2000 Value		0.5	-2.7	6.1	12.5	18.7	13.7	10.1	6.1	
Russell 2000 + 2%		1.9	3.7	14.3	15.4	20.8	9.8	9.2	14.3	
CPI + 5.9% (1 Month in Arrears)		0.3	4.5	7.9	9.0	8.7	8.6	8.5	7.9	
INTERNATIONAL EQUITY MANAGERS										
Capital Guardian	105.17	6.3	14.4	24.4	23.1	23.2	8.1	10.6	11.6	9/1/94
Capital Guardian - Net		6.3	14.0	23.8	22.6	22.7	7.6	10.1	11.0	
vs. EAFE + 1%		5.5	13.8	26.4	24.7	25.1	9.6	9.3	9.2	
CPI + 6.7% (1 Month in Arrears)		0.4	4.7	8.7	9.8	9.5	9.4	9.3	9.3	
Grantham, Mayo	172.29	6.0	17.0	28.8	26.3	28.6	18.0	13.9	13.3	4/13/95
Grantham, Mayo - Net		5.9	16.4	27.9	25.4	27.7	17.1	13.1	12.5	
vs. EAFE + 1%		5.5	13.8	26.4	24.7	25.1	9.6	9.3	9.5	
CPI + 6.7% (1 Month in Arrears)		0.4	4.7	8.7	9.8	9.5	9.4	9.3	9.3	

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**MANAGER REPORTED PERFORMANCE
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	Assets (\$ millions)	September	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
INTERNATIONAL SMALL CAP EQUITY MANAGER										
Capital Guardian	73.28	4.3	10.9	23.7	31.1	32.3	10.9	N/A	12.5	10/31/97
Capital Guardian - Net		4.3	10.4	23.1	30.4	31.6	10.3	N/A	11.9	
vs. MSCI World Ex U.S. Small Cap + 1%		2.1	7.3	20.2	22.8	26.5	13.6	9.8	10.4	
CPI + 6.9% (1 Month in Arrears)		0.4	4.7	8.9	10.0	9.7	9.6	9.5	9.5	
CORE FIXED INCOME MANAGERS										
JPMorganChase	111.49	0.8	4.1	5.4	N/A	N/A	N/A	N/A	5.6	11/1/05
JPMorganChase - Net		0.8	4.0	5.2	N/A	N/A	N/A	N/A	5.4	
vs. LB G/C + 0.5%		0.7	4.1	5.6	4.2	4.7	6.6	6.5	5.4	
LB Aggregate + 0.5%		0.8	4.0	5.6	4.4	4.6	6.5	6.5	5.5	
CPI + 2.6% (1 Month in Arrears)		0.0	3.7	4.6	5.7	5.4	5.3	5.2	5.0	
Mellon Capital Management	335.03	0.8	3.9	5.2	3.9	4.2	6.0	6.0	--	1/31/96
Mellon Capital Management - Net		--	--	--	--	--	--	--	--	
vs. LB Aggregate		0.8	3.8	5.1	3.9	4.1	6.0	6.0	--	
Loomis, Sayles	98.07	1.5	5.1	7.0	6.0	8.2	9.4	8.0	9.8	6/30/91
Loomis, Sayles - Net		1.5	5.0	6.9	5.8	8.1	9.3	7.8	9.7	
vs. Fixed Income Reference Index + 0.5% (1)		0.8	4.0	5.6	4.4	4.6	6.5	6.6	7.9	
LB Aggregate + 0.5%		0.8	4.0	5.6	4.4	4.6	6.5	6.5	7.7	
CPI + 2.6% (1 Month in Arrears)		0.0	3.7	4.6	5.7	5.4	5.3	5.2	5.4	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

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HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	September	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Loomis, Sayles	122.47	2.0	2.1	6.4	7.4	13.5	9.6	7.8	12.2	11/30/82
Loomis, Sayles - Net		1.9	2.0	6.3	7.2	13.4	9.5	7.7	12.0	
vs. Merrill Lynch High Yield + 1.5%		2.6	3.7	9.2	8.9	13.8	9.3	7.7	N/A	
CPI + 5.0% (1 Month in Arrears)		0.2	4.3	7.0	8.1	7.8	7.7	7.6	N/A	
REAL ESTATE MANAGERS										
ING Clarion Real Estate Securities	74.37	5.0	-3.9	5.5	21.1	22.8	18.4	12.9	13.7	1/13/97
ING Clarion Real Estate Securities - Net		4.9	-4.2	5.1	20.7	22.4	18.0	12.4	13.3	
vs. Wilshire REIT Index + 1%		4.0	-4.4	4.8	20.6	22.9	19.4	13.8	14.6	
MSCI US REIT Index + 1%		4.4	-4.2	5.7	20.0	22.3	19.0	13.0	13.8	
CPI + 5.9% (1 Month in Arrears)		0.3	4.5	7.9	9.0	8.7	8.6	8.5	8.5	
VENTURE CAPITAL MANAGERS										
Adams Street Partners (1)	27.58	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (2)	--	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	2.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Consists of the most recently available custody Market Value to account for the cash the manager does not include in their values.

(2) The assets invested with Adams Street Partners is aggregated to account for the custody cash.

Policy Measures are Highlighted

ASSET ALLOCATION
As of September 30, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	19.8 %	20.0 %	17.0 %	25.0 %
Boston Partners	8.2			
Mellon Capital Russell 1000 Growth	4.9			
Mellon Capital S&P 500	6.7			
Total Medium Cap Equity	6.3 %	6.0 %	4.0 %	7.5 %
Artisan Partners	1.9			
Hotchkis & Wiley	1.7			
EARNEST Partners	1.8			
Reinhart & Mahoney	0.9			
Total Small Cap Equity	5.0 %	5.0 %	3.0 %	6.5 %
Westfield	2.5			
AQR	2.5			
Total International Equity	16.8 %	16.0 %	11.0 %	21.0 %
Capital Guardian	6.4			
Grantham, Mayo	10.4			
Int'l Small Cap Equity	4.4 %	4.0 %	0.0 %	7.0 %
Capital Guardian	4.4			
Venture Capital	1.8 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	54.2 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of September 30, 2007

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	32.9 %	35.0 %	31.0 %	41.0 %
JP Morgan	6.7			
Mellon Capital	20.2			
Loomis, Sayles	5.9			
High-Yield Fixed Income	7.4 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	7.4 %			
Cash	1.1 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	41.4 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.5 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**Average Credit Quality
of current Fixed Income managers**

JPMorgan	AAA
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	A1
Loomis High Yield:	Ba3

Mercer Ratings for Current Managers

<i>Large Cap Eq</i>	Mercer Rating	<i>Int'l Small Cap Eq</i>	Mercer Rating
Boston Partners	A-	Cap. Guardian	N
Mellon Russell 1000 Growth	N ¹		
Mellon S&P 500	N ¹		
		<i>Core Fixed</i>	
		JP Morgan	B
		Mellon	N ¹
		Loomis, Sayles	B (T)
<i>Mid & Small Cap Eq</i>			
Artisan	B+		
Hotchkis & Wiley	A (T)		
EARNEST Partners	B+		
Reinhart & Mahoney	N		
Westfield	B+		
AQR	A		
		<i>High Yield Fixed</i>	
		Loomis, Sayles	B (T)
<i>Int'l Eq</i>			
Cap. Guardian	B+		
Grantham, Mayo Intl Intrinsic Value	A		
Grantham, Mayo Intl Small Company	A		
		<i>Real Estate</i>	
		ING Clarion	N

¹ Mercer no longer rates index funds, however, Mercer considers Mellon to be a top tier index provider.

**The Employees' Retirement System of the County of Milwaukee
Proposed Investment Manager Due Diligence 2007**

<u>Date</u>	<u>Managers Invited to Present</u>
17-January	Hotchkis & Wiley
14-February	EARNEST Partners
21-February	Reinhart & Mahoney
21-March	Artisan*
18-April	
16-May	Boston Partners
20-June	Adam Street Partners
18-July	ING Clarion
15-August	AQR
19-September	Capital Guardian
17-October	GMO and Westfield (TBD)
14-November	Loomis Sayles (both Core and High Yield)
29-December	JP Morgan

* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

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